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# NATURAL RESOURCES

## Weatherization Assistance Program



## **Additional Oversight Needed of the Weatherization Assistance for Low-Income Persons Program**

The Department of Natural Resources (DNR) Energy Center is responsible for administering the federal Weatherization Assistance for Low-Income Persons Program (WAP) in Missouri. This audit included (1) analyzing DNR's review and follow-up procedures on subgrantee audit reports, (2) evaluating the effectiveness of DNR's on-site monitoring of subgrantee operations, and (3) evaluating DNR's overall program oversight to ensure subgrantee compliance with program requirements. We found weaknesses exist in DNR's program monitoring procedures. As a result, subgrantees have not always complied with program requirements, and program over billings have occurred.

### **Inadequate review and analysis of audit reports**

Energy Center personnel have not always or timely followed-up with subgrantees when (1) independent CPA audits reported WAP and overall agency internal control findings, (2) audited financial information differed from DNR records, (3) audit results did not include a required schedule, or (4) audit reports had not been submitted timely. Federal Department of Energy WAP grant guidance requires states conduct a comprehensive review of each subgrantee including financial audits. Federal regulating agencies could require additional oversight and impose additional grant conditions on Missouri because of the failure by the state to comply with monitoring requirements. (See page 6)

### **Limited monitoring of subgrantee procedures**

Energy Center personnel on-site monitoring and expenditure review need improvement because personnel (1) limited client file reviews and inspections of houses receiving improvements, which resulted in documentation deficiencies being missed, (2) have not ensured correction of problems identified in the house inspections, (3) did not conduct analysis of bidding requirements as part of the on-site visits, (4) did not review sufficient documentation to support program expenditures, and (5) did not use training and technical assistance reports to evaluate training expenditures claimed by subgrantees. (See page 9)

### **Cash management compliance weaknesses**

Energy Center personnel have not monitored whether subgrantees complied with federal cash management requirements for interest earned on advanced funding. In addition, the Energy Center personnel advanced WAP funding to some subgrantees without considering funding needs or whether subgrantees met requirements for advances. (See page 12)

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## Abbreviations

|      |  |
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| CFDA | Catalog of Federal Domestic Assistance                   |
| CFR  | Code of Federal Regulations                              |
| CPA  | Certified Public Accountant                              |
| DNR  | Department of Natural Resources                          |
| DOE  | Department of Energy                                     |
| OMB  | Office of Management and Budget                          |
| RSMo | Missouri Revised Statutes                                |
| SAO  | State Auditor's Office                                   |
| WAP  | Weatherization Assistance for Low-Income Persons Program |



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

Honorable Matt Blunt, Governor  
and  
Doyle Childers, Director  
Department of Natural Resources  
Jefferson City, MO

The Department of Natural Resources (DNR) is responsible for administering the federal Weatherization Assistance for Low-Income Persons Program in Missouri. The program goals include increasing the energy efficiency of homes owned or occupied by low-income persons, reducing their energy expenditures, and improving their health and safety. DNR subgrants program funding to 17 organizations and a local government that handle local program administration. Our audit objectives included (1) analyzing DNR's review and follow-up procedures on subgrantee audit reports, (2) evaluating the effectiveness of DNR's on-site monitoring of subgrantee operations, and (3) evaluating DNR's overall program oversight to ensure subgrantee compliance with program requirements.

We found DNR personnel have inadequately reviewed and analyzed subgrantee audit reports, performed limited monitoring of subgrantee program operations and expenditures, and have not monitored subgrantees for applicable cash management requirements.

We conducted our audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. This report was prepared under the direction of John Blattel. Key contributors to this report included Jon Halwes, Kelly Davis, and Dana Wansing.

A handwritten signature in black ink that reads "Susan Montee".

Susan Montee, CPA  
State Auditor

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# Introduction

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The Weatherization Assistance for Low-Income Persons Program (WAP)<sup>1</sup> is a 100 percent federally funded grant program from the U.S. Department of Energy (DOE) and is administered by the Department of Natural Resources (DNR) Energy Center. The federal Office of Management and Budget (OMB) reports the objective of the WAP is to increase the energy efficiency of homes owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety.

The Energy Center subgrants WAP funds to 16 regional Community Action Agencies,<sup>2</sup> 1 city government and 1 not-for-profit organization that handle local program administration. Subgrantee staff determine eligibility for WAP participation. Eligible individuals have incomes at or below 150 percent of the poverty level. Once eligible, the staff perform energy audits at the client's home to determine the necessary projects to improve the energy efficiency of the home. Weatherization projects are completed either through the use of subcontractors or with materials warehoused by the subgrantee. There is no limit to the cost to weatherize a home for an eligible client; however, the average annual cost per all homes weatherized by each subgrantee must remain under \$2,826<sup>3</sup> for fiscal year 2007.

DNR provides guidance on grant requirements, energy and financial audit procedures, and required documentation through a WAP manual. This manual is updated periodically and DNR provides updated copies and trainings to subgrantees on additions and changes. The manual is based on applicable federal regulations,<sup>4</sup> and federal DOE grant guidance.

DNR is required to monitor the activities of subgrantees. DNR monitors subgrantee activities by performing annual on-site visits at the 18 subgrantees and monitoring their budgets. Site visits include a review of client files, and inspections of weatherization projects. Subgrantees are required to submit annual budgets, and meet certain earmarking requirements. The agencies must submit monthly and quarterly reports to the Energy Center detailing expenditures, homes complete, health and safety projects, and training activities. Subgrantees must also submit copies of annual independent certified public accountant (CPA) audits for review by Energy Center personnel.

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<sup>1</sup> Catalog of Federal Domestic Assistance (CFDA) Number 81.042.

<sup>2</sup> Private corporations or public agencies established under the Economic Opportunity Act of 1964, which are authorized to administer funds received from federal, state, or local entities to assess, design, operate, finance, and oversee antipoverty programs.

<sup>3</sup> The required average annual cost per home changes each fiscal year.

<sup>4</sup> 10 CFR 440 and 10 CFR 600.

DNR expended WAP grant funding of \$6.2 and \$5.3 million in fiscal years 2006 and 2007, respectively. Table 1.1 shows total grant expenditures and amounts paid to subgrantees since fiscal year 2002.

**Table 1.1: WAP Expenditures by Fiscal Year**

| <b>Fiscal Year</b> | <b>WAP Grant Expenditures</b> | <b>Advances or Reimbursements to Subgrantees</b> |
|--------------------|-------------------------------|--|
| 2002               | \$5,370,963                   | \$5,069,702                                      |
| 2003               | 5,010,936                     | 4,737,624  |
| 2004               | 5,532,343                     | 5,219,815  |
| 2005               | 6,038,024                     | 5,699,440  |
| 2006               | 6,239,498                     | 5,766,043  |
| 2007               | 5,258,125                     | 5,032,429  |
| <b>Total</b>       | <b>\$33,449,889</b>           | <b>\$31,525,053</b>                              |

Source: SAO Statewide Single Audit reports.

## Scope and Methodology

To determine the requirements of the WAP, we reviewed federal laws and regulations, the DNR WAP manual, and federal DOE grant guidance. In addition, we reviewed federal single audit requirements under OMB Circular A-133 for the WAP program. We discussed program procedures and internal controls with DNR personnel to determine if proper controls were in place to ensure compliance with federal laws and grant requirements. In addition, we discussed some grant requirements with federal WAP personnel to determine Missouri's responsibilities for monitoring subgrantee activities.

To determine if required independent CPA reports are received and reviewed, we read all reports received in fiscal year 2006 and 2007 from each subgrantee. The audits covered program activity for fiscal years ending in 2005 and 2006, respectively.<sup>5</sup> We identified all audit findings related to the WAP or overall internal control weaknesses.<sup>6</sup> We compared the findings identified to the Energy Center's requests for corrective action to determine if all findings had been addressed.

To evaluate program financial information, we compared monthly reports submitted to the Energy Center by subgrantees in fiscal years 2005 to 2007 to annual reports of subgrantee revenues and expenditures compiled by Energy Center personnel and to audited WAP financial results. We

<sup>5</sup> DNR had not received fiscal year 2007 audit reports as of our review.

<sup>6</sup> Each audit may not have included a detailed review of the WAP as allowed under OMB Circular A-133 single audit requirements.

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compared differences identified to differences Energy Center personnel reported to the various subgrantees for evaluation or correction.

To evaluate the effectiveness of subgrantee monitoring procedures, we reviewed the on-site monitoring and housing inspection files for fiscal years 2006 and 2007 for weaknesses identified. We discussed corrective action procedures for these problems with Energy Center personnel.

To evaluate whether subgrantees are complying with budget and earmarking requirements, we compared monthly and cumulative expenditures in fiscal year 2007 to approved budgets. To determine how DNR monitored compliance with budgeting and earmarking requirements, we discussed procedures with key personnel and reviewed monthly notifications to subgrantees.

To evaluate how subgrantees administer WAP funds and comply with grant requirements, we conducted field visits at two subgrantees. We interviewed WAP and fiscal personnel at each agency. We discussed subgrantee procedures for determining eligibility and administering the program. We also discussed subgrantee procedures for determining amounts billed to DNR for program expenditures.

At the subgrantees, we haphazardly selected 15 weatherization projects completed in fiscal year 2007 to review. We reviewed the associated client files to determine compliance with eligibility requirements and required documentation. In addition, we reviewed each project's invoices and compared invoiced costs to project costs reported on homes complete summaries. We also haphazardly chose one month of projects for fiscal year 2007 and reviewed all project files for that month. We compared all project invoices for that month to amounts charged to the homes complete summary. In addition, we traced at least one month of grant billings to the Energy Center to supporting schedules and the subgrantee general ledger to determine if billed amounts were supported by actual expenditures.

We requested comments on a draft of our report from the Director of the Department of Natural Resources. We conducted our work between July and November 2007.

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# Additional Oversight Needed of the Weatherization Assistance Program

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Weaknesses exist in DNR monitoring procedures of the WAP. This situation exists because Energy Center personnel have inadequately reviewed and analyzed subgrantee audit reports, performed limited monitoring of subgrantee program operations and expenditures, and have not monitored subgrantees for applicable cash management requirements. As a result, subgrantees have not always complied with program requirements, and program over billings have occurred.

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## Inadequate Review and Analysis of Audit Reports

Energy Center personnel have not always or timely followed-up with subgrantees when (1) independent CPA audits reported WAP and overall agency internal control findings, (2) audited financial information differed from DNR records, (3) audit results did not include a required schedule, or (4) audit reports had not been submitted timely. DOE WAP grant guidance requires states to conduct a comprehensive review of each subgrantee including financial audits. Failure, by a state, to comply with this requirement is sufficient cause to require special conditions<sup>7</sup> to the grant.

Energy Center personnel told us unit officials responsible for sending follow-up letters had other responsibilities and audit review had been a low priority. Energy Center personnel said weaknesses in these areas occurred because of a lack of staffing.

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## Subgrantee audit findings and discrepancies are not followed-up

Energy Center personnel did not always request corrective action when subgrantee audits reported WAP or overall internal control findings. Our review of audit reports submitted during fiscal years 2006 and 2007 identified four audits reporting overall internal control weaknesses and an additional two audits which made recommendations specific to the WAP. One of the six audits reported an instance of fraud and another included an instance of over billing. Energy Center personnel only requested corrective action from the subgrantees for weaknesses identified in three of the six reports.

For two of the three reports where corrective action had been requested, Energy Center personnel performed no or untimely verification procedures to ensure subgrantee staff implemented corrective action plans. In one case, no work occurred during the next on-site monitoring visit to verify internal control improvements had been implemented.

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<sup>7</sup> Special conditions are defined in 10 CFR 600.212 and include payment on a reimbursement basis, withholding authority to proceed to the next phase until performance is acceptable, requiring additional financial reports, additional project monitoring, requiring grantee or subgrantee obtain technical or management assistance, or establishing additional prior approvals.



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For the second report, Energy Center personnel did not verify corrective action taken for a reported \$53,500 fraud for 2 years. DNR records show the subgrantee contacted Energy Center personnel about the fraud in September 2005 and reached an agreement to address the issues. The subgrantee agreed to have completed corrective action by November 30, 2005. Energy Center personnel performed some review of the corrective action taken in March 2006 which included review of 2 projects. Review of the remaining 56 projects did not occur until October 2007. An Energy Center official said the delay occurred because personnel responsible for the WAP quit working for the Energy Center and therefore, the issue was not addressed. The official said all audits received in fiscal year 2007 are being reviewed for possible findings and follow-up action will be taken.

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**Audited weatherization financial information and amounts reported to DNR are not reconciled**

Energy Center personnel did not follow-up with subgrantees when audit report WAP financial information differed from DNR records. In some cases, personnel notified subgrantees that audited amounts matched, and no additional work was required when the records did not match. In addition, our review of records disclosed Energy Center personnel limited their review to comparing expenditure amounts reported and did not report differences in revenues shown, or beginning and ending fund balances. An Energy Center official stated she did not know why analysis had been limited to only expenditures amounts.

We compared Energy Center reports of subgrantee revenues and expenditures to the WAP financial results presented in the audit reports for fiscal years 2005 and 2006 and found:

- Audit report financial information for 14 of the 34<sup>8</sup> (41 percent) audits did not match DNR records.
- For 5 of the 14 audit reports, DNR sent letters to the subgrantees reporting amounts matched or materially matched and no additional response was necessary when there were \$59,213 in unexplained revenue or expenditure differences.
- For the other nine reports, Energy Center personnel did not send a letter to the subgrantees requesting reconciliation for \$116,043 in unexplained revenue or expenditure differences.

**Reports did not include WAP schedule**

Subgrantee audit reports did not always include the required WAP financial schedule, and Energy Center personnel did not send reports back for

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<sup>8</sup> Two reports did not include WAP financial information to compare to DNR records.

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correction. Our review of audit reports covering fiscal year 2005 and 2006 found:

- Only one subgrantee routinely used the required schedule.
- No subgrantee provided reconciliation of amounts that did not match DNR records.
- Energy Center personnel did not evaluate compliance with the schedule requirement for reports received in fiscal year 2006. As a result, personnel did not notify the subgrantees about non-compliance or return reports to them for correction.

During the exit conference Energy Center personnel told us they are in the process of drafting letters to agencies requesting corrective action for audits received in 2007 that did not comply with schedule requirements.

The WAP manual requires an audit report schedule showing program revenues and expenditures per the auditor's calculations and the amounts the subgrantee reported to DNR on monthly reports. If the two results do not agree, the auditor is to reconcile the differences. Subgrantees are considered to be in non-compliance with grant contracts if reconciliations are not performed. The WAP manual lists sanctions or penalties for agencies considered to be non-compliant, but records show none have been imposed. An Energy Center official said she did not know why sanctions or penalties for non-compliance had not been enforced. Energy Center personnel said audit reports had not been returned as required in the WAP manual because it would only result in additional audit expense for the subgrantee.

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**Subgrantee audit reports  
not always received  
timely**

Energy Center personnel did not have a tracking process to ensure subgrantee audit reports were received timely. Our review of audit reports received during fiscal years 2006 and 2007 identified two reports not received until over a year after they were due. The WAP manual requires subgrantees to submit audits within 9 months of the end of the subgrantee fiscal year or 30 days from the date the final report is submitted.

Energy Center personnel said they did not realize reports (covering financial activity in fiscal year 2005) had not been received until submission of the fiscal year 2006 report in 2007. At that time, personnel said they requested the missing reports. Both reports disclosed errors related to financial data.

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## Limited Monitoring of Subgrantee Procedures and Expenditures

Energy Center personnel on-site monitoring and expenditure review need improvement because personnel (1) limited client file reviews and inspections of houses receiving improvements, which resulted in documentation deficiencies being missed, (2) have not ensured correction of problems identified in the house inspections, (3) did not conduct analysis of bidding requirements as part of the on-site visits, (4) did not review sufficient documentation to support program expenditures, and (5) did not use training and technical assistance reports to evaluate training expenditures claimed by subgrantees.

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### Energy Center personnel performed limited reviews of subgrantee operations and projects

Energy Center personnel limit reviews to 3 client files and 3 or 4 housing inspections during annual on-site monitoring visits. Annual WAP projects for subgrantees range from 13 to 290. DNR officials said additional reviews were not performed because of limited staff. Two Energy Center personnel conducted on-site monitoring visits in fiscal year 2007. An Energy Center official said personnel limit client file review time to 3 hours at each subgrantee during these visits. During 12 hour visits to 2 subgrantees, 2 SAO auditors reviewed 30 client files using the same checklist used by Energy Center personnel. SAO auditors also reviewed an additional 34 files to ensure project invoices matched amounts charged to the program.

Sound business practice suggests the number of files and projects to be reviewed should be based on the risk of noncompliance for each subgrantee. Energy Center personnel said they could review additional files and homes for agencies considered to be higher risk. In addition, DOE WAP grant guidance states the results of annual monitoring should be considered during subsequent year planning of subgrantee oversight.

### On-site reviews failed to identify errors

Two examples illustrate Energy Center personnel's failure to identify problems during on-site visits:

- Energy Center personnel provide each subgrantee the list of files they wish to review 1 or 2 weeks in advance. Our review of client files at one subgrantee found all files requested in advance (15) had all the required documentation while 92 percent of the files selected while on-site had incomplete documentation. Energy Center personnel did not identify file documentation problems in either their May 2006 or April 2007 on-site monitoring reports for the subgrantee. A subgrantee official told us his staff added or completed required documentation for the 15 files immediately prior to our visit. Energy Center officials had been unaware subgrantees corrected problems in files given advance notice when we notified them of our results.

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- Energy Center personnel did not find errors during two on-site monitoring visits conducted in April 2006 and March 2007 at a subgrantee that later reported billing irregularities. A separate review of the subgrantee by DNR internal audit personnel in June 2007 covering the same review period found client files missing and the billing problems.

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Housing inspections identify errors but no assurance repairs made

Housing inspection procedures have not ensured deficiencies identified are corrected. For fiscal years 2006 and 2007, 81 of 133 (61 percent) projects inspected required some type of repair or correction. Deficiencies can range from water heater blankets not trimmed to wiring not meeting code requirements. Energy Center personnel said they request notification by subgrantee staff that corrections had been completed in cases which required repair work. However, personnel performed no additional follow-up inspections or obtained other documentation to substantiate the additional work had been completed. An Energy Center official said staffing limitations prevented more follow-up on corrections made.

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Bidding compliance not reviewed

Energy Center on-site monitoring did not include analysis of bidding requirements. Subgrantees are required by the WAP manual to obtain bids for furnace purchases, as well as purchases over \$3,000. An Energy Center official did not know why procedures failed to include the analysis.

Our review of bidding documentation for furnace purchases at two subgrantees found staff at one subgrantee no longer obtained bids and staff at the other subgrantee occasionally chose a higher bid without documenting the reason. Energy Center personnel had been unaware of these bidding problems when we notified them of our results.

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DNR is not requesting, receiving, or reviewing supporting documentation of payments made to subgrantees

Energy Center personnel did not request or receive supporting documentation for expenditures billed to the program or review a sample of the documentation during on-site visits. An Energy Center staff person said she assumed all expenditures submitted are allowable. Energy Center personnel only receive monthly reports of homes complete, health and safety project work performed, a statement of the amount expended for each budget category, and quarterly reports detailing subgrantee staff training.

DNR internal audit personnel found billing discrepancies when they reviewed supporting expenditure documentation at one subgrantee. During the review in June 2007, they compared a sample of general ledger amounts related to program operations to amounts requested from DNR and found \$9,799 in overstated billings. Subgrantee staff could not explain the

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|  | <p>differences. Federal regulations<sup>9</sup> require WAP financial management systems exercise effective control and accountability and accounting records be supported by source documentation.</p>  |
| Adjustments made to monthly financial data without documentation of reason | <p>Energy Center personnel occasionally changed the monthly billing amounts reported by subgrantees when entering data into the WAP database without documenting the reason or obtaining documentation from the subgrantee supporting the change. We found adjustments by Energy Center personnel to expenditure data were made to agree DNR database records to incorrect fund balances reported by the subgrantee. Energy Center personnel said they would only alter amounts if subgrantee staff called about a change. However, personnel did not maintain documentation of these calls or requests in subgrantee files.</p>   |
| Reports of training received but not used to verify training expenditures  | <p>Energy Center personnel did not use training and technical assistance reports to evaluate claimed expenditures. To document the activities related to the expenditures of training and technical assistance funds, subgrantees submit quarterly reports of staff training activities. Energy Center personnel said they only read the reports and do not compare them with training expenditures claimed to evaluate accuracy and completeness.</p> <p>We compared training and technical assistance reports submitted for fiscal years 2005 to 2007 to subgrantee reports of monthly expenditures and found:</p> <ul style="list-style-type: none"> <li>• One subgrantee charged training expenditures of \$523 in fiscal year 2005. However, the subgrantee did not report training on any of the four quarterly training reports submitted that fiscal year.</li> <li>• At least one quarterly report was missing from Energy Center training report files for six different subgrantees. Energy Center personnel said they did not know why some reports would be missing unless the reports had been misfiled. The subgrantees claimed training expenditures of \$4,397 for the periods of the missing reports.</li> <li>• Personnel at one subgrantee included dates and training costs on submitted reports. This procedure allowed claims to be easily traced to claimed expenditures.</li> </ul> |

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<sup>9</sup> 10 CFR 600.121(b)(3) and 10 CFR 600.121(b)(7).

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## Cash Management Compliance Weaknesses

Energy Center personnel have not monitored whether subgrantees complied with federal cash management requirements for interest earned on advanced funding. Energy Center officials said they were not aware of the cash management requirements and did not require agencies to report or comply with these requirements. Federal regulations<sup>10</sup> require recipients of advanced federal grant funding to place those funds in interest bearing accounts, unless (1) the recipient receives less than \$120,000 annually in all federal funding, (2) expected interest would be less than \$250, or (3) the required minimum balance is too high to be feasible. The regulations also require entities to annually remit interest earned on advances in excess of \$250 to the federal government. The federal regulations also state all requirements of the cash management regulations shall apply to recipients that make payments to subgrantees. WAP personnel at one subgrantee told us the agency had not remitted interest earned. An Energy Center official said the department did not know if applicable agencies complied with the cash management requirements.

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## Advances made without consideration of need

The Energy Center personnel advanced WAP funding to some subgrantees without considering funding needs or whether subgrantees met requirements for advances. The Energy Center advanced WAP funding to 10 subgrantees in fiscal year 2007 totaling \$385,626. Our review of monthly revenue and expenditure reports for fiscal years 2005 to 2007 shows the Energy Center personnel advanced grant funds to 14 agencies that had carryover balances from the previous year. Personnel advanced \$38,765 to one subgrantee that had a carryover fund balance in excess of \$90,000. Energy Center officials said any subgrantee requesting advances received an advance regardless if the agency had a carryover balance. Federal regulations<sup>11</sup> state cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient.

Energy center personnel have also not determined whether subgrantees have policies and procedures in place to properly manage advance payments and ensure they minimize time elapsing between receipt and disbursement in compliance with federal regulations. An energy center official said unit personnel have not looked at this issue and did not know whether they had that responsibility. Federal regulations<sup>12</sup> state recipients will be paid in advance provided they maintain or demonstrate the willingness to maintain (1) written procedures that minimize the time elapsing between the transfer

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<sup>10</sup> 10 CFR 600.122.

<sup>11</sup> 10 CFR 600.122(b)(2).

<sup>12</sup> 10 CFR 600.122(b)(1).

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of funds and disbursement by the recipient and (2) financial management systems that meet the standards for fund control and accountability.

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## Conclusions

Energy Center personnel have not adequately reviewed subgrantee audit reports and have not always required corrective action for program or internal control weaknesses identified. As a result, control weaknesses have been allowed to continue without correction. Obtaining prompt corrective action for problems identified is necessary to ensure compliance with program requirements and ensure grant funding has been and will be appropriately used by subgrantees.

Energy Center personnel have not always followed up with subgrantees when audit reports had financial results differing from DNR records or enforced a WAP manual requirement that the audit results be presented on a required schedule. As a result, personnel have less assurance program reimbursements are correct. Reviewing revenue and expenditure amounts reported in subgrantee audits, and requesting reconciliation of amounts differing from DNR records would help ensure program payments are appropriate and supported by actual expenditures. In addition, requiring agencies to submit audits with the required schedule would expedite Energy Center personnel analysis of the reports. Subgrantees have no incentives to meet audit schedule requirements if penalties or sanctions are not imposed for non-compliance.

Energy Center personnel do not have a tracking process to ensure subgrantees submit audit reports timely. As a result, the unit received two subgrantee audits over a year after they were due and financial problems noted in the reports did not get addressed timely. A tracking system would ensure personnel know about the failure to submit reports timely.

Energy Center personnel perform limited on-site reviews of subgrantee procedures which have failed to identify program weaknesses. The limited number of files and projects reviewed in the visits and advance notice of which files will be reviewed limit the personnel's ability to find problems. Evaluating subgrantee program compliance by reviewing a sample of client files and projects based on a risk assessment of the each subgrantee would provide more assurance expenditures are allowable and compliance requirements met. Some files need to be selected without providing the subgrantee advance notice.

Procedures used do not ensure deficiencies identified during house inspections are corrected. Testing a sample of homes needing repairs or obtaining some other documentation of the corrections would provide more assurance. The lack of analysis of bidding compliance during on-site visits

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has resulted in Energy Center personnel being unaware of at least one subgrantee which no longer obtained bids on required purchases.

Energy Center personnel had not received or reviewed supporting documentation for reimbursed subgrantee expenditures. Reviewing supporting documentation for expenditures submitted to DNR periodically or when conducting on-site visits would help ensure subgrantee expenditures are allowable. If Energy Center personnel had reviewed supporting documentation the over billings problem reported by one subgrantee in 2007 may have been identified and corrected sooner.

Having all subgrantees provide specific training details on training and technical assistance reports would allow this information to be more easily matched to expenditure documentation.

Energy Center personnel occasionally changed the monthly billing amounts reported by subgrantees when entering data into the WAP database without documenting the reason or obtaining documentation from the subgrantee supporting the change. Without documentation it is not clear why the changes occurred or if they were necessary.

Subgrantee compliance with cash management requirements has not been addressed or monitored and advances are provided without consideration of need. As a result, interest income may not have been returned to the federal government by subgrantees as required in federal regulations and unnecessary advances may have been made.

Collectively, the monitoring weaknesses prevent federal oversight agencies from having assurance WAP funding provided to Missouri have been spent appropriately. As a result, the state may have to return grant funding to the federal government and may have special conditions imposed by federal oversight agencies for future grant awards.

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## Recommendations

We recommend the Director of the Department of Natural Resources:

- 2.1 Request and obtain timely corrective action for audit findings related to the WAP and overall subgrantee internal control and billing weaknesses.
- 2.2 Improve analysis of the audit reports by:
  - Ensuring differences between audited WAP financial information and DNR records are reconciled by the auditor or subgrantee staff and those reconciliations are reviewed by Energy Center personnel.



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- Evaluating other financial information besides expenditures such as revenues, and beginning and ending fund balances.
  - Ensuring financial information is submitted on the required schedule and sending audits back that do not meet reporting requirements.
- 2.3 Enforce penalties for subgrantees that are non-compliant with grant reporting requirements.
- 2.4 Establish procedures to ensure audit reports are received within federal compliance requirements.
- 2.5 Establish on-site monitoring procedures that include:
- Reviewing a sample of weatherization client files and homes to inspect annually based on a risk assessment of each subgrantee.
  - Selecting at least some client files for review while on-site.
  - Performing follow-up procedures on projects requiring repairs or corrections including requesting additional information or performing additional inspection work on a sample of projects.
  - Evaluating bidding compliance.
- 2.6 Develop procedures to review on a sample basis supporting documentation for subgrantee expenditures. Review can be done as part of on-site monitoring visits.
- 2.7 Obtain documentation from subgrantees supporting changes made to submitted financial data.
- 2.8 Require agencies to include dates of and dollar amounts charged for training, meetings, and conferences on training and technical assistance quarterly reports. Use this information to verify training and technical assistance expenditures claimed by the subgrantees.
- 2.9 Develop procedures to ensure compliance with federal cash management rules that include:
- Ensuring the subgrantees have established policies and procedures to manage advanced funding in compliance with federal regulations including distribution of interest earned.
  - Limiting advance funding to subgrantees.

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## Agency Comments

- 2.1 *The Department of Natural Resources (DNR), earlier in calendar year 2007, performed an internal review of the Weatherization Assistance Program. In the internal audit, DNR recognized the importance of obtaining timely corrective action from subgrantees whose independent audits identified findings or internal control and billing weaknesses. Thus, based on the recommendations in the DNR internal audit, staff has completed a thorough review of the annual audits most recently due to the department from subgrantees (fiscal year 2006 or fiscal year 2007 depending upon the subgrantee's fiscal year). Department responses regarding discrepancies and findings have been sent to all subgrantees. Corrected audits, reconciliations and corrective action plans for audit findings and weaknesses are due from the subgrantees to the department in a timely manner and no later than January 21, 2008. Internal procedures have been adopted that ensure DNR staff are tracking due dates for subgrantee submission of annual audits, fully evaluating audits for findings and weaknesses, requesting corrective action plans in a timely manner, ensuring timely subgrantee submission of corrective action plans, and implementing sanctions for subgrantee failure to submit and implement adequate corrective action plans.*
- 2.2 *DNR concurs. The Department of Natural Resources (DNR), earlier in calendar year 2007, performed an internal review of the Weatherization Assistance Program. In the internal audit, DNR recognized the importance of ensuring thorough evaluation of financial information contained in subgrantee audits, ensuring that differences between audited financial information and DNR records are reconciled by the subgrantee's auditor, and ensuring that financial information is submitted on required schedules. Thus, DNR staff has completed a thorough review of the annual audits most recently due to the department from subgrantees (fiscal year 2006 or fiscal year 2007 depending upon the subgrantee's fiscal year). DNR has communicated in writing with 15 subgrantees to inform them that the audits have not been accepted and to require that differences between audited Weatherization Assistance Program financial information and DNR records be reconciled or that required schedules be supplied to the department or that corrective action plans be submitted to the department for audit-identified findings and weaknesses. Corrected audits, reconciliation and corrective action plans are due from the subgrantees to the department no later than January 21, 2008.*
- 2.3 *DNR concurs and will enforce penalties as allowed by federal laws and regulations.*

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- 2.4 *The department has developed new procedures and adopted the use of an Annual Statewide Single Audit Report Tracking for Subgrantees form, and specific staff has been assigned the responsibility of maintaining the tracking sheet for each subgrantee. In addition, internal procedures have been adopted that require the grant manager to ensure that the audit includes a detailed review of the Weatherization Assistance Program, the required financial schedule, and the required reconciliation schedule. Internal procedures require the grant manager to perform an independent reconciliation of the audit's financial schedule and reconciliation schedule with the monthly, quarterly and annual reports submitted by the subgrantee. This issue was addressed in DNR's internal review of the program.*
- 2.5 *The department has completed a risk assessment of all subgrantees based on numerous factors including the existence of findings or fiscal discrepancies in the annual audit, variances in budgeted versus actual expenditures, carry forward amounts, timeliness of monthly reporting, production rates, and technical monitoring findings. The risk assessment will guide review and revision of existing monitoring protocols. The department has implemented a procedure in which staff members select an adequate sample of client files to be reviewed while on-site at the subgrantee's offices. In fiscal year 2008, the duties of two existing staff members already have been re-directed to focus on increased technical monitoring of subgrantees, and these staff members have begun technical monitoring of weatherized homes. The focusing of additional personnel on technical monitoring will allow follow-up, on-site inspection of a sample of projects requiring repair or corrections. DNR concurs with the recommendation to evaluate subgrantees' bidding compliance. These issues were addressed in DNR's internal review of the program.*
- 2.6 *This issue was addressed in DNR's internal review of the program. Department staff regularly has reviewed a static number of four files, including supporting documentation, for subgrantee expenditures during on-site monitoring visits for many years. DNR is developing and testing new protocols to determine the appropriate size of samples to review based upon the risk assessment the department has performed on each subgrantee.*
- 2.7 *DNR concurs. DNR has adopted a policy in which we will not accept revised financial information without backup documentation. This issue was addressed in DNR's internal audit.*

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2.8 DNR concurs. We have implemented a policy that requires the subgrantees' quarterly training reports to provide details about the dates of training-related events, dollar amounts expended, and information about the content of the training. This information will be used to verify training and technical assistance expenditures reported by the subgrantees in their monthly reports.

2.9 DNR agrees with the recommendation to ensure that subgrantees have policies and procedures to manage advance funding in compliance with federal regulations. In September 2007, the department revised its procedure regarding advance funding for weatherization subgrantees. Advance funding was limited to one month's funding. In addition, before any advance funding was approved, subgrantees were required to submit detailed justification for a request for advance funding, including the names and addresses of homes the agency planned to weatherize in the period for which advance funding was requested, the date upon which weatherization work was scheduled to begin, the estimated cost of completing the weatherization work on each home, and the terms of payment if subcontractors were to be used to accomplish the weatherization work. The new policy also states that any cash balance will be deducted from the amount of advance funding approved, and no monthly reimbursements will be approved for a subgrantee until advance funding has been depleted. During our on-site monitoring visits to subgrantees, DNR staff will monitor the existence of subgrantee policies and procedures to guide compliance with federal cash management rules. This issue was addressed in DNR's internal audit.